

## Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 SP-02 ICA-20 AID-05 EB-08 NSC-05  
SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00 FRB-01  
INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 EUR-12  
/115 W

-----098343 241022Z /14

P 240935Z MAY 78  
FM AMEMBASSY TOKYO  
TO SECSTATE WASHDC PRIORITY 8203  
TREASURY/DEP WASHDC PRIORITY  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME

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USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A  
TAGS: EFIN, JA  
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - MAY 18-  
24

1. SUMMARY: GOJ INCREASES SWAP LINES FOR FOREIGN BANKS;  
SERIES OF SUBSEQUENT MOVES TO RELAX CONTROLS ON CAPITAL  
FLOWS AND IMPORT FINANCING IS ALSO REPORTEDLY UNDER CON-  
SIDERATION. RETAIL STORE SALES UP STRONGLY IN APRIL.  
SMALL IMPROVEMENT IN LABOR CONDITIONS NOTED IN MARCH,  
THOUGH AVERAGE UNEMPLOYMENT UNCHANGED. YEN EXPORT AND  
IMPORT PRICES FALL IN APRIL. FACTORS CONTRIBUTING TO MARCH  
MONEY SUPPLY GROWTH REPORTED. END SUMMARY.

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2. GOJ DECIDED MAY 23 TO INCREASE THE LIMIT IN FOREIGN  
BANKS' SWAP FACILITIES BY APPROXIMATELY 20 PCT (TOKYO  
09239). THE INCREASE IS DESIGNED TO COMPENSATE FOR THE  
EROSION THAT HAS OCCURRED IN THE YEN VALUE OF THE DOLLAR-  
DENOMINATED LIMITS. BOJ ADJUSTED THE LIMITS ON A BANK-BY-  
BANK BASIS; THE CRITERIA USED TO ESTABLISH EACH BANK'S  
QUOTA ARE NOT KNOWN. SINCE THE DIRECT IMPACT OF A TAKE-UP

OF THE SWAP LINE WOULD BE TO CREATE UPWARD PRESSURE ON THE SPOT EXCHANGE VALUE OF THE YEN (ALONG WITH A NARROWING OF THE FORWARD PREMIUM), MOF REPORTEDLY HAD DELAYED TAKING THIS MOVE UNTIL MORE SETTLED CONDITIONS EMERGED IN THE EXCHANGE MARKETS.

PRESS REPORTS ALSO SAY MOF IS CONTEMPLATING FURTHER STEPS TO RELAX RESTRICTION ON CAPITAL FLOWS. REPORTEDLY, MOF IS CONSIDERING A REDUCTION IN THE PRESENT 100 PCT MARGINAL RESERVE REQUIREMENT ON FREE YEN DEPOSITS (IMPOSED MARCH 18, 1978) TO 50 PCT, PRESUMABLY TO BE EFFECTIVE SOME TIME IN JUNE, AFTER THE IMPACT OF THE INCREASE IN SWAP FACILITIES IS SEEN. ALSO UNDER DISCUSSION, BUT APPARENTLY LESS FAR ADVANCED, IS A PROPOSAL TO REMOVE THE BAN (IMPOSED MARCH 16, 1978) ON FOREIGN PURCHASES OF JAPANESE BONDS WITH A RESIDUAL MATURITY OF FIVE YEARS AND ONE MONTH OR LESS. THE PRESS ALSO INDICATES MOF IS CONSIDERING WITHDRAWING THE GUIDANCE IT REPORTEDLY ISSUED LAST AUTUMN THAT PROCEEDS OF YEN BOND BORROWINGS BY FOREIGNERS (EXCEPT INTERNATIONAL INSTITUTIONS) BE CONVERTED INTO FOREIGN CURRENCY AND REPATRIATED ABROAD. SOME OF THE SOVEREIGN RISKS BORROWING YEN REPORTEDLY HAVE BEEN INTERESTED IN ADDING THE YEN PROCEEDS DIRECTLY TO THEIR OFFICIAL RESERVES RATHER THAN ACQUIRING OTHER FOREIGN CURRENCIES. ANOTHER MEASURE CURRENTLY UNDER CONSIDERATION IS TO EXTEND THE PERIOD OF FOREIGN CURRENCY FINANCING OF IMPORTS TO BRING IT MORE INTO LINE WITH THE STANDARD PERIOD OF

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SETTLEMENT. IN MARCH, THE STANDARD PERIOD OF SETTLEMENT FOR IMPORTS WAS EXTENDED FROM FOUR MONTHS TO SIX MONTHS, WITH THE PERIOD FOR CAPITAL GOODS AND DURABLE CONSUMER GOODS EXTENDED TO ONE YEAR. WHILE BANKS OVERSEAS WERE ALLOWED TO PROVIDE FOREIGN CURRENCY LOANS OF UP TO ONE YEAR FOR IMPORTS OF CAPITAL GOODS AND DURABLE CONSUMER GOODS, THE ANTICIPATED EXTENSION OF THE USANCE PERIOD FOR OTHER IMPORT FINANCING TO SIX MONTHS WAS NOT MADE EFFECTIVE IMMEDIATELY. THE PROPOSAL UNDER CONSIDERATION IS TO INCREASE THE PERIOD OF FOREIGN CURRENCY FINANCING FROM BOTH DOMESTIC AND OVERSEAS BANKS TO 180 DAYS FOR ORDINARY IMPORTS, LEAVING THE OTHER TERMS UNCHANGED. SINCE ALL OF THE CONTEMPLATED MOVES WOULD TEND TO INCREASE THE DEMAND FOR YEN (OR DECREASE DEMAND FOR FOREIGN CURRENCY) EVEN IF ONLY ON A ONE-TIME BASIS, THE MOF IS EXPECTED TO PHASE IN THESE PROPOSALS, DEPENDING ON EXCHANGE MARKET CONDITIONS.

3. RETAIL STORE SALES ROSE BRISKLY IN APRIL. DEPARTMENT STORE SALES, S.A., ADVANCED 0.7 PCT IN APRIL OVER THE PRIOR MONTH'S LEVEL, THE FIFTH CONSECUTIVE MONTH OF INCREASE. (SEE NOTE BELOW). SALES OF LARGE-SCALE SELF-SERVICE STORES, NSA, ALSO ACCELERATED IN APRIL AND

INCREASED 19.8 PCT OVER THE YEAR EARLIER LEVEL, COMPARED WITH THE 14 PCT YEAR-OVER-YEAR INCREASE AVERAGED IN THE FIRST QUARTER OF THIS YEAR. STRONG APRIL ADVANCE IN SUPER-MARKET SALES FOLLOWED THE SUBDUED EXPANSION IN THE PRECEDING SEVEN MONTHS. ACCORDING TO PRESS ACCOUNTS, IT WAS PRIMARILY ATTRIBUTABLE TO A SHARP REBOUND IN SALES OF SPRING CLOTHING.

TABLE 1: DEPARTMENT STORE SALES (S.A., 1975 EQUALS 100; PCT CHANGE FROM PRIOR MONTH IN PAREN):

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INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02  
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01  
/115 W

-----098349 241022Z /14

P 240935Z MAY 78  
FM AMEMBASSY TOKYO  
TO SECSTATE WASHDC PRIORITY 8204  
TREASURY/DEP WASHDC PRIORITY  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME

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JAN	118.4	(0.5)
FEB	119.9	(1.3)
MAR	121.8	(1.6)
APR	122.6	(0.7)

TABLE 2: SALES OF DEPARTMENT STORES AND LARGE-SCALE SELF-SERVICE STORES, N.S.A. (IN BIL YEN; PCT CHANGE FROM YEAR EARLIER IN PAREN):

- DEPARTMENT STORES SELF-SERVICE STORES

FEB 342.9 (6.4) 312.4 (14.3)  
 MAR (REV) 466.3 (7.5) 366.0 (14.4)  
 APR 419.1 (7.3) 395.0 (19.8)  
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NOTE: MITI HAS ADOPTED NEW SEASONAL ADJUSTMENT FACTORS  
 FOR THE MONTHS OF 1978. AS A RESULT, S.A. DATA FOR JAN  
 THRU MARCH HAVE BEEN REVISED.

4. LABOR CONDITIONS, S.A., GENERALLY SHOW A SMALL IM-  
 PROVEMENT IN MARCH AND ALSO IN THE JAN-MARCH QUARTER AS A  
 WHOLE. AS TRANSMITTED (TOKYO 7941) MARCH UNEMPLOYMENT  
 RATE REMAINED UNCHANGED FROM FEB AT 2.1 PCT, ALTHOUGH THE  
 NUMBER OF UNEMPLOYED INCREASED TO 1.18 MIL. JOB OFFERS/  
 APPLICANTS RATIO PICKED UP IN MARCH AND OVERTIME WORKED IN  
 MANUFACTURING INDUSTRIES CONTINUED TO RISE WHILE UNIT  
 LABOR COSTS DECLINED. THE JAN-MARCH QUARTER PRESENTED  
 VIRTUALLY THE SAME PICTURE AS THE MARCH FIGURES. THE  
 NUMBER OF UNEMPLOYED ROSE BY 30,000 PERSONS TO 1.16 MIL  
 BUT UNEMPLOYMENT RATE REMAINED UNCHANGED AT 2.1 PCT FOR THE  
 THIRD CONSECUTIVE QUARTER. JOB OFFERS/APPLICANTS RATIO  
 TURNED UPWARD WHILE OVERTIME WORKED IN MANUFACTURING  
 SECTOR ROSE FOR THE SECOND QUARTER IN A ROW. UNIT LABOR  
 COSTS DECLINED FOR THE FIRST TIME IN THE PAST YEAR. (NOTE:  
 ALL DATA BELOW ARE SEASONALLY ADJUSTED BY ECONOMIC  
 PLANNING AGENCY.)  
 LABOR CONDITIONS, S.A.

RECENT MONTHS: JAN FEB MARCH

JEI NO. SERIES (UNIT)

385 JOB OFFERS/APPLICANTS RATIO 0.53 0.53 0.55

401 MFG OVERTIME (1975 EQUALS  
 - 100) 142.9 143.4 146.2

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378 UNEMPLOYED (THOUSANDS) 1130 1160 1180

379 UNEMPLOYMENT RATE (PCT) 2.1 2.1 2.1

421 UNIT LABOR COST (1975  
 - EQUALS 100) 106.3 107.2 105.4  
  
 - 1977 1978  
 - NOV DEC JAN

N/A/ LABOR PRODUCTIVITY,  
 - MACHINERY (1970 EQUALS  
 - 100) 185.0 N/A N/A

RECENT QUARTERS: 1977 1978  
 - APR- JUL- OCT- JAN-  
 - JUNE SEP DEC MARCH  
 SERIES

JOB OFFICERS/APPLI-  
 CANTS RATIO 0.56 0.53 0.53 0.54

MFG OVERTIME 141.6 136.6 139.4 144.2

UNEMPLOYED 1110 1130 1130 1160

UNEMPLOYMENT RATE 2.0 2.1 2.1 2.1

UNIT LABOR COST 104.1 106.0 106.6 106.3

5. BOTH EXPORT AND IMPORT CONTRACT PRICE INDICES (N.S.A.,  
 DENOMINATED IN YEN) DECLINED IN APRIL. EXPORT PRICE INDEX  
 FELL ONE PCT IN APRIL FROM THE PRIOR MONTH WHILE IMPORT  
 PRICE INDEX DROPPED A SHARP 3.9 PCT. BOJ ATTRIBUTES APRIL  
 DECLINE IN EXPORT AND IMPORT PRICES PRIMARILY TO THE  
 APPRECIATION OF YEN EXCHANGE RATE AGAINST THE DOLLAR.  
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EXPORT AND IMPORT CONTRACT PRICE INDICES, N.S.A.

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INFO OCT-01 EUR-12 ISO-00 SP-02 ICA-20 AID-05 EB-08

NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00  
FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04  
SIL-01 /115 W

-----098397 241022Z /14

P 240935Z MAY 78

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 8205

TREASURY/DEP WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

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(1975 EQUALS 100; PCT CHANGE FROM PRIOR MONTH IN PAREN)

- EXPORTS (JEI 80) IMPORTS (JEI 88)

FEB	90.5 (0.7)	92.4 (0.2)
MAR	89.9 (-0.7)	90.9 (-1.6)
APR	89.0 (-1.0)	87.4 (-3.9)

6. FOLLOWING TABLES RELEASED BY BANK OF JAPAN SHOW MARCH  
DATA ON BANK LOANS AND DISCOUNTS AND FACTORS CONTRIBUTING  
TO MARCH GROWTH IN M-2, N.S.A. (TOKYO 8353).

(1) BANK LOANS AND DISCOUNTS (JEI 133; IN BIL YEN; PCT  
CHANGE FROM PRIOR PERIOD IN PAREN)

RECENT MONTHS, END OF MONTH: RECENT QUARTERS (MONTHLY  
- AVERAGE):  
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JAN 107,376 (0.5)	1977:APR-JUNE 101,413(2.3)
FEB 108,205 (0.8)	JUL-SEP 103,789(2.3)
-	OCT-DEC 105,944(2.1)
MARCH 109,379 (1.1)	1978:JAN-MAR 108,320(2.2)

(2) CHANGES IN M-2

- JAN FEB MARCH

MONTHLY PCT CHANGE AT ANNUAL RATE, I.E. TIMES 12):

M-2, S.A.	7.4	10.8	12.0
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M-2, N.S.A. -30.4 4.3 21.2

(FACTORS CONTRIBUTING TO CHANGES IN M-2, N.S.A.):

CREDITS TO:

PRIVATE SECTOR	- 7.5	4.7	13.7
NATIONAL GOVT	- 7.1	- 1.7	12.0
LOCAL GOVTS	- 0.1	2.1	3.8
FOREIGN ASSETS, NET	- 5.7	3.7	6.5
OTHERS	-10.0	- 4.5	-14.8
TOTAL ALL FACTORS	-30.4	4.3	21.2

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## Message Attributes

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**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 24 may 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 jan 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
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**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
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**From:** TOKYO USEEC  
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**Original Previous Classification:** n/a  
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**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
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**Review Content Flags:**  
**Review Date:** 29 mar 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** N/A  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2580676  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FINANCIAL AND ECONOMIC DEVELOPMENTS - MAY 18- 24  
**TAGS:** EFIN, JA  
**To:** STATE TRSY  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/8b054597-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
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EO Systematic Review  
20 Mar 2014  
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